



July 29, 2019

Fiscal Policy Choices

Presentation to the Aspen Economic Strategy Group

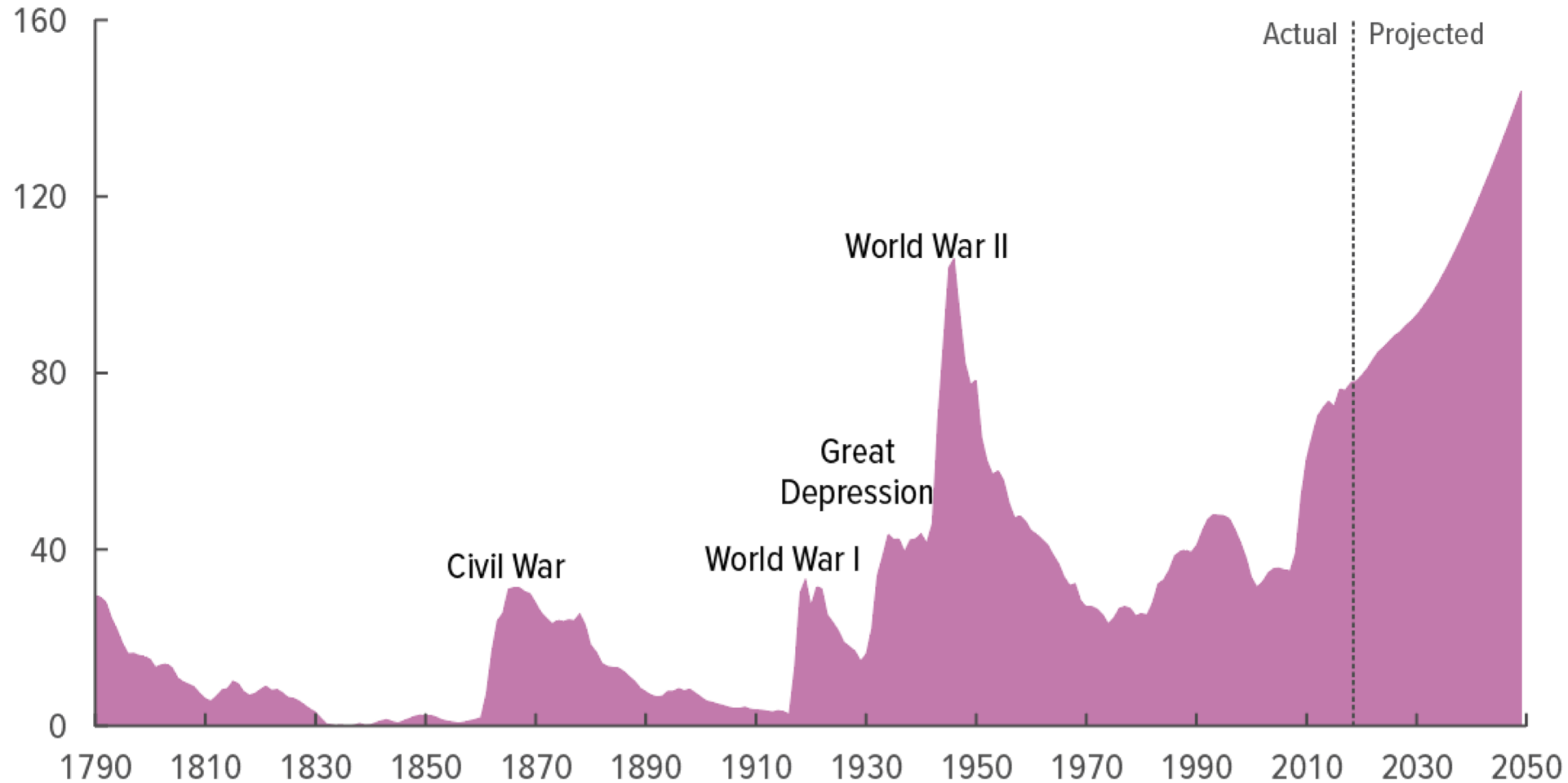
Phillip L. Swagel
Director

Outline

- The Long-Term Budget Outlook
- Interest Rates
- Consequences of High and Rising Federal Debt
- Fiscal Policy Choices
- The Size of Policy Changes Needed to Meet Various Goals for Deficit Reduction
- Effects on Different Generations

Federal Debt Held by the Public Since 1790

Percentage of Gross Domestic Product



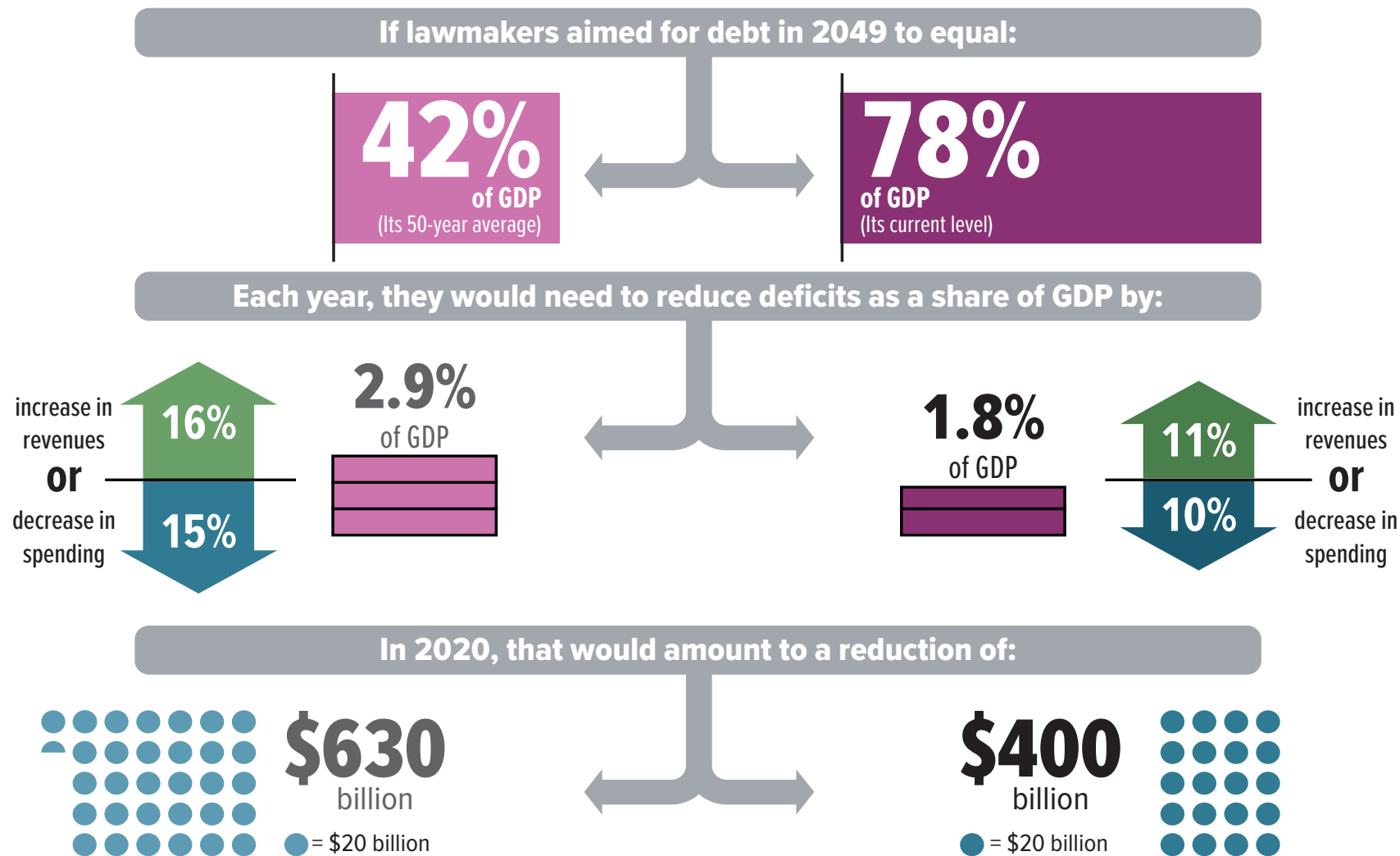
Fiscal Policy Choices

- What is an acceptable amount of federal debt? In considering that question, policymakers would assess the benefits, costs, and risks of the activities associated with varying levels of federal debt.
- What is the proper size of the federal government, and what would be the best way to allocate federal resources?
- How large would policy changes need to be to reach certain targets for debt?
- When should any changes in deficits occur, and at what pace should they take place?

Fiscal Policy Choices (Continued)

- Is it more valuable to reduce budget deficits now, when the economy is in its 11th year of expansion, so that policymakers will feel that they have more fiscal space when a recession occurs—particularly given the potential constraints on monetary policy? Or is it more valuable to increase budget deficits now, by reducing taxes or increasing spending, in ways that could help reduce the chances of a reduction in output in the near term or fund investments that could support stronger growth in the future?
- What types of policy changes would most enhance prospects for near-term and long-term economic growth?
- What would be the distributional implications of proposed changes—that is, who would realize economic losses or benefits?

The Size of Policy Changes Needed to Make Federal Debt Meet Two Possible Goals in 2049



The Size of Policy Changes Needed to Make Federal Debt Meet Two Possible Goals in 2049 (Continued)

For debt to
equal 42%
of GDP

If the changes were equal percentage increases in all types of revenues, taxes per household in 2020 would be higher than they would be under current law by:

+\$2,100



Values are for households
in the middle fifth of the
income distribution.

+\$1,400



\$12,500 **\$13,900**
Current Average Tax New Average Tax

For debt to
equal 78%
of GDP

If the changes were equal percentage cuts in all types of noninterest spending, initial Social Security benefits in 2020 would be lower than they would be under current law by:

-\$2,800



Values are averages for people in the
middle fifth of the lifetime earnings
distribution who were born in the 1950s
and who would claim benefits at age 65.

-\$1,900



\$16,600 **\$19,400**
New Average Benefits Current Average Benefits

\$17,600 **\$19,400**
New Average Benefits Current Average Benefits

How Timing Affects the Size of Policy Changes Needed to Make Federal Debt Meet Two Possible Goals in 2049

Percentage of GDP

Starting Year

The reduction in each year's primary deficit needed to make federal debt held by the public in 2049 equal . . .

